THEORETICAL ANALYSIS OF GLOBALIZATION, REGIONAL INTEGRATION AND IMMIGRATION

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1. INTRODUCTION

In the past twenty years, the whole world has been experiencing dramatic changes in the economic, technological, political and social arenas. Many academicians and researchers in economics, politics and sociology field refer to these transformations as "Globalization". Globalization started as a general concept among certain specialized academic groups in the middle of the 1980's. It is made in reference to the integration of trade blocs (Fernandez and Portes, 1998) in different parts of the world and the rapid development of new advanced technologies. The concept Globalization then started to expand, until became part of our common lexicon. It is now no longer a special term used by economists, political scientists and sociologists.

Later, the concept and uses of the word "Globalization" was started to expand in the universal language, until it became adapted into our common lexicon. It is no longer a special term uses by economists, political scientist and sociologist. It is referred to as the most relevant economic phenomenon until our days. Probably, there isn't another concept that can define better the fundamental challenges in the world economy in this century as Globalization. But it was not until the 1990's that Globalization made its formal appearance and consolidation in the international context. According to the International Monetary Fund (IMF), Globalization is defined as an accelerated process of the world economies integrated through the integration of the production, trade, financial flows, technological diffusion, information networks, and cultural currents (Toribio, 2000). Important to mention is that Globalization supported by three basic pillars, there are: the first pillar of Globalization is supported by new institutional focus and deep political reforms based on less public sector participation into the economic activity or market.

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The institutional focus is supported by the idea to reduce the public sector participation into the economic activity under the argument of unnecessary bureaucracy (non-efficient allocation of resources and production factors). The elimination of the unnecessary bureaucracy uses the mechanism of privatization based on the sale assets from the public sector enterprises (products and services) to the private sector. The sell of public sector to the private sector assume a better performance in the productivity and efficiency of public services and products. The mission of privatization is to search an efficient allocation of resources into the economy of any country under the private sector management.

Globalization is supported by three basic pillars, namely: (i) new institutions forms and deep political reforms; (ii) rapid development of transportation sector and information-communication technology sector; (iii) Creation of trade blocs based on trade liberalization.

The new institutional focus and deep political reforms that constitute the first pillar of globalization is based on less public sector participation in the economic activity. The idea behind the reduced public sector participation is that unnecessary bureaucracy creates non-efficient allocation of resources and production factors. The elimination of the unnecessary bureaucracy is implemented through the mechanism of privatization where goods and services from the public enterprises are sold to the private sector. The sale of public sector assets to the private sector is assumed to give rise to higher productivity and efficiency in the public sector. This is in line with the mission of privatization, that is, to achieve efficient allocation of resources in the country's economy.

Since the end of the cold war -- with the collapse of the bipolar order (communism and capitalism) that reigned since 1945 -- a new phase of reform in the economic, institutional and political arenas has been created. A new institutional world order has been structured under deep political, economic and social challenges (Gaspar, 2000). The political side of Globalization revolves around the promotion of democracy based on human rights framework and more active participation of civil society in the democratization process.

The second pillar of Globalization is the development of transportation systems and information-communication technologies tools resulting in the use of advanced technologies field. The Information-Communication Technology (ICT) sectors, uses technological innovative tools such as Internet services (Web), sophisticated software and hardware, satellite T.V. and satellite mobile phone systems. These tools enable quick accessibility of information and hence easer business transactions. The present advances in technology have come a long way since the industrial revolution in England. With advanced technology emerged new Research and Development (R&D) methods and tools that in turns lead to expansion in world production.

However, the above benefits of technological revolution are mainly enjoyed by developed countries. This results in concentration of high technology amongst developed countries. Therefore, developing countries and Less Developed Countries (LDC's) continue to be highly dependent on developed countries for their technological needs.

The creation of trade blocs based on trade liberalization is the third pillar of globalization. This means the creation of single market among a group of countries through free trade (laissez faire). The formation of these trade blocs depends on two forces in international trade policy: multilateralism and regionalism. These forces appear to contradict Globalization, but they actually converge at the same point, which is free trade. Thus it is inappropriate to conclude that multilateralism and regionalism are mutually exclusive and contradictory forces (Jaramillo, 2002).

In trade liberalization there is not only free mobility of goods, but also fast mobility of Foreign Direct Investment (FDI) and labor (L). In fact, FDI plays an important role in the fast expansion of trade liberalization around the world. FDI becomes more significant and volatile through globalization. In the globalization process, FDI (Sees) high speculation and fast mobility among countries around the world. FDI has also evolved through communication-information technologies.

Labor mobility around the World is very much facilitates by immigration. Immigration among different regions has expanded considerably in the past 20 years, especially in the 1990's. The growth immigration during this period was from 3% to 9%. This is the immigration growth rate (IGR)[1] result. During this period, the highest IGR at the intra-regional level took place in European Union –EU-, where the rate increased from 2% in the 1980's to 15% in the 1990's. North America Free Trade Area –NAFTA- is second after EU with its IGR growing from 3% in the 1980's to 9% in the 1990's (See Figure 1). In this case, the bulk of the IGR originated from immigration from Mexico and Canada to U.S.

In the 1990's Latin America witnessed a high IGR of 20% where the immigration flows were into U.S. Asia had an IGR of 15% in the same period (See Figure 2). In this case the immigration flows work oriented to Australia, China, U.S. and Europe in order of (immensity) of immigration. For Africa (north part) the IGR for the same period was 10%, where the destination of immigration was Europe. Unlike EU and NAFTA, the orientation of immigration in Latin America (LA), Asia and Africa is not intra-regional but inter-regional. Obviously people from these three regions immigrated to other regions with higher levels of economic and social development.

From the above, it is clear that the trend of immigration in LA, Africa and Asia is different from that of E.U. and NAFTA. Also the region with the highest IGR around the world is Latin America (IGR of 20%), follow by Asia (IGR of 15%). Relating these observations to Globalization, could be Seen that in no limitation to mobility of goods, FDI and Labor around the world.

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[1] Immigration Rate (**IR**) is equal to total of number of immigrants (**N**) divided by the total of population (**TP**) multiply by 100% or **IR = N/TP x 100%**. The number of immigrants included workers (high and lower qualification) and students.

The Immigration Gross Rate (**IGR**) is equal to last period of analysis of the immigration rate (**IR'**) plus the first period of analysis in immigration rate (**IRo**) divided by the first period of analysis of immigration rate (**IRo**).

$$IGR = IR' - IRo/IRo$$

***** The **IGR** was applied in 100 different countries.

The high IGR in Latin America (LA), Asia and Africa is due to high levels of unemployment, constant growth of inflation rate, constant depreciation of exchange rate and slow per-capita growth (resulting from imbalance distribution of wealth). All these negative factors can be considered the basic reasons these regions (LA, Asia and Africa) are unable to retain their full domestic labor in these regions. In other words, the above mentioned factors were the underlying reasons for limited domestic labor demand in LA, Asia and Africa. These factors jointly result in small output production (GDP) in these three regions. Moreover, the small output production (GDP) in these three regions have been based on limited basket of agriculture products (coffee, fruits, vegetables and raw materials) and manufacturing products (clutches and electro-domestics) with low added value that fetch low prices in the international market that constitutes the push factors for immigrations out of the regions.

Additionally, LA, Asia and Africa a phase with several common problems in their domestic labor supply structures: basically, only a small percentage of the population has the opportunity to obtain a tertiary education, and even this small percentage of population cannot be absorbed completely by the domestic productive structure for employment. This surplus in labor supply pushes down the wages for all. In the short term this factor generates low productivity and non-efficient allocation of resources (financial resources, human resources, and natural resources) and production factors (labor –L-, capital –K-) in the domestic productive structure. The overall scenario is that Developing countries and LDC's in LA, Asia and Africa cannot absorb their own surplus domestic labor. In the long run this surplus domestic labor start to search for new opportunities in large countries or regions with high output of production (GDP) and where they are offered high income.

2. Multilateralism and Regionalism

It is important to clearly define the concepts of multilateralism and regionalism and their respective implications from different viewpoints in the study of Globalization.

2.1. Multilateralism

The multilateralism is considered a basic principle of globalization. This principle promotes free trade through the elimination of trade and non-trade barriers measures among nations under the supervision of the General

Agreement of Trade and Tariffs (GATT). (Since 1947, GATT has been considered by many experts in international trade as the international trade and legal framework among all the GATT members)

The modus operandi of the GATT is the MFN clause. The implementation of this clause gave rise to article XXIV, which pertains to regional agreements based on customs union and free trade areas. At present, this article of GATT provides the main safeguard for multilateralism. Besides legitimizing customs union and free trade areas, this article aims to minimize trade diversion by insisting that the common tariff of a custom union 'shall not on the whole be higher or more restrictive' than general incidence of the duties and regulations of commerce applicable. In addition, for a free trade area, the duties and other regulations of commerce shall not be higher or more restrictive than those previously in effect (Cabl and Henderso, 1994).

The MFN clause also provides the basic elements of bilateralism in all negotiations among GATT members. This is significant as sometimes the importance of bilateralism as a vital complementary part of multilateralism is neglected.

It wasn't until 1990's that the global supra-national organization, the World Trade Organization (WTO) started establishing trade rules among all its members based on the GATT framework. Formed in 1995, WTO is responsible for upholding all agreements and negotiations based on the elimination of tariff measures (import tariffs) and non-tariff measures (quotas and quality controls) among all members within the WTO framework.

Baldwing (1999) argues that the GATT/WTO's incapacity to solve trade differences among its members could be rectified through the expansion of large number of regional integration agreements (regionalism) around the world. Krugman (1991), on the other hand, argues in favour of multilateralism and supports the idea that multilateralism brings more benefits to international trade than regionalism. He asserts that if the number of custom unions and free trade areas increases, then trade welfare in the world trade will decrease.

2.2. Regionalism

The term Regional Economic Integration is often given different names, shapes and forms, each with different implications and nuances. In this paper, regional economic integration is defined broadly: the deepening of intra-regional economic interdependence in a given region through intra-regional trade, foreign direct investment and commercial regulations, standards and practices.

Regionalism, on the other hand, is the political movement towards the creation or expansion of regional trade organizations or associations, as well as integration of political institutions in the regions. The legal framework of Regional Integration Agreements (RIAs)[6] is used in regionalism for negotiations among countries in the same region. There are two types of integration schemes in RIAs, namely customs union (CU) and free trade areas (FTAs).

Cabl and Henderso (1994) present strong claims in favor of regionalism: that regionalism breaks down economic nationalism and increases awareness of economic interdependence; that it is a useful laboratory for new approaches to deeper integration which can be applied multilaterally (in relation, for example, to product and technical standards, services, government procurements, state subsidies, competition policy and dispute settlement); that it makes negotiation easier by reducing the number of players; and that it encourages the codification and formalization of rules and regulations affecting trade, making them more transparent and less capricious and discretionary, if not always more liberal.

Bhagwati (1999) points out that there are, however, two types of regionalism: (i) old regionalism or closed regionalism used in the 1950’s, 1960’s, and 1970’s ; (ii) new regionalism or open regionalism which was developed and promoted in the end of 1980’s.

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[6] RIA’s can be defined as agreements of mutual support between interested parties to remove total or partial tariff barriers and non-tariff barriers among all members in order integrate into a single trading bloc.

2.2.1. Closed Regionalism

Closed regionalism is based on the import-substitution industrialization (ISI) strategy or inward oriented model under the infant industry argument. The ISI strategy uses a common import tariff that is a form of government intervention to protect the domestic industries and to create a large market. (Balassa, 1985).

Closed regionalism has observed a series of phases in the process towards the creation of a single trading bloc. These six phases are first preferential trade arrangements. Second, free trade area (FTA), the FTA will elimination of internal tariff and non-tariff barriers but do not harmonize external barriers. Third is the Customs union (CU), it is trying to remove internal barriers and establish a common external tariff. Fourth is common markets (CM), CM is formed by a customs unions (CU) plus free mobility of labor (L) and capital (K) are eliminated. Fifth phase is to establish a common currency and common economic policies based on an economic and monetary union. Finally nations can form a single state in a confederation (Lawrence, 1996).

The application of the ISI strategy in the case of developing countries and less developed countries is assumed to help enhance economic development in these countries. However, disappointing results were obtained by many countries in Latin America in 1980's - for example, countries in Central America Common Market –CACM-, Andean Community, and Caribbean Community. These countries experienced high costs, economically (low economic growth), socially (poverty) and politically (political instability).

In fact, the application of the ISI strategy gives rise to problems such as imbalanced industrial concentration, high cost of production (i.e. non-efficient allocation of factors of production (L,K) in different production sectors such as agriculture, manufacturing, industry and services) as well as problems relating to bureaucratic negotiations among governments. In addition, economic and political influences from large economies on small economies have always been prevalent under this strategy.

2.2.2. Open Regionalism

The open regionalism was developed and promoted in the end of 1980's. Based on trade liberalization or open market, it uses the export-led oriented or outward oriented model. Contrary to closed regionalism, open regionalism Seeks to eliminate all trade barriers and non-trade barriers in the same region based on a minimal government intervention is applied to protect domestic industries from foreign competition.

Cabl and Henderson (1994) consider open regionalism as a negotiating framework consistent with and complementary to GATT/WTO. The authors cite Asia Pacific Economic Cooperation (APEC) as a model of this approach. But, as they point out, 'openness' carries at least two different meanings: openness in terms of non-exclusivity of membership; openness in terms of contributing economically to the process of global liberalization than detracting from it through discrimination.

According to Baldwing (1999), there are two reasons for the success of the new regionalism: (i) GATT/WTO's unsatisfactory performance in terms of multilateralism and its incapacity to dissolve trade differences among its members with the first regionalism; (ii) United States' changed position on multilateralism and the move in its trade policy towards open regionalism. It can be argued that open regionalism helps to manage the world trade. NAFTA, for example, started to adopt the open regionalism model. The results it obtained were positive.

In order to achieve a stream of open regionalism based on NAFTA experiences, the following basic conditions must exist:

Economic Conditions: market proximity (gravity model), foreign direct investment (FDI) facilities and legal security among its members, different production structures, efficient combination of production factors (K, L), low inflation rates, stability in the exchange rates, and large market size.

Political Conditions: democracy, economic power group's willingness to integrate the countries in the region, strong legal framework, political stability and ability to solve geographical border problems.

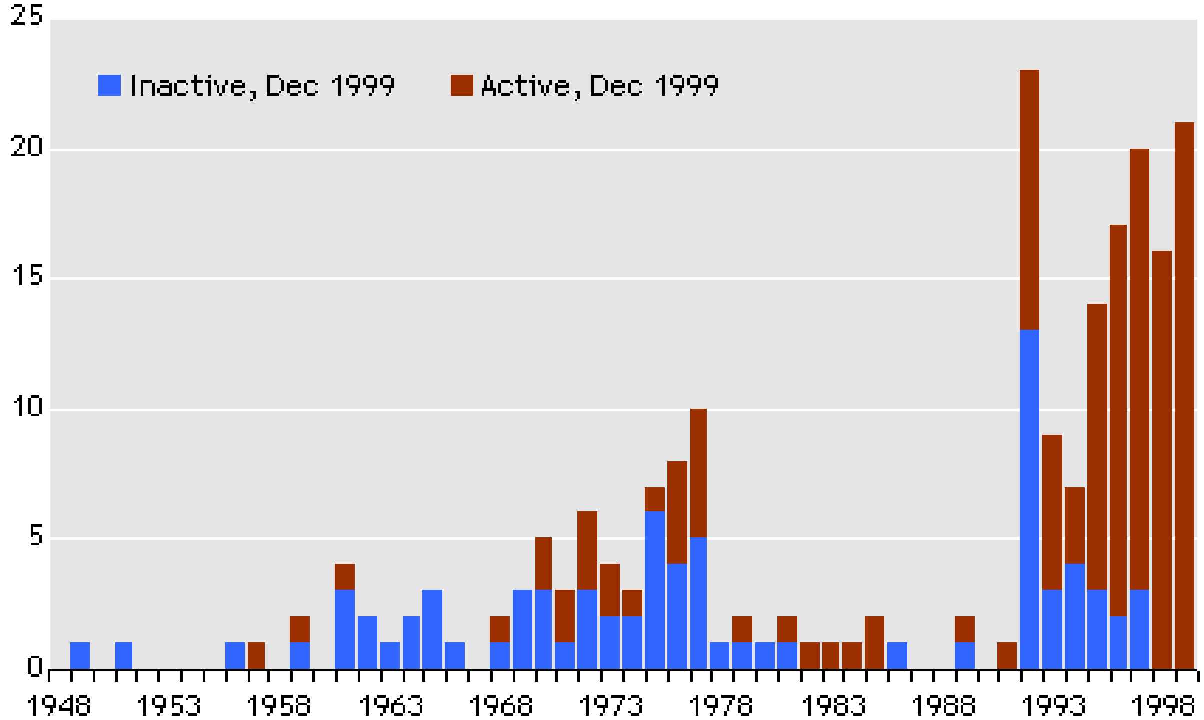
Social Condition: historical antecedents among countries in the same region originated by the immigration from small economy to large economy.

The combination of the above conditions constitutes the factor leading to the present success of open regionalism. It is difficult to implement the open regionalism between developing countries and less developed countries. This is because these countries lack the same kind of economic, political, and social conditions as those present in the North America Free Trade Area (NAFTA).

It is, however inappropriate to argue that open regionalism is the ideal scheme to integrate developing countries with less developed countries (LDC's) in order to compete in the world trade. Bhagwati (1993) and Yeung (1999), for example, maintain that regionalism reduces the motivation and commitment for multilateralism. They have several counter-arguments against the above favorable claims of Cabl and Henderso for regionalism (as mentioned earlier in this section on Regionalism). It is originated from the fast expansion in the number of RIA's around the world. Another reason for the counter-argument against multilelateralism is mentioned by Fernandez. She highlights that there are two types of trade restrictions, namely hard restrictions and soft restrictions that have spouted inside and outside of RIA's. Hard restrictions are tariff measures (import tariffs) and non-tariff measures (quotas) in the manufacture and agriculture sector.

Soft restrictions pertain to sanitary measures and focuses on health and environmental issues. These measures create restrictions and obstacles against development of international trade, especially trades between developing countries and less developed countries. According to Raquel Fernandez (1998), the fast growth of RIAs around the world was generated in the 1990's (See Graph 1). She points out that approximately 162 (100%) RIAs around the world were registered in the GATT/WTO, and up till 1998, the WTO had a total of 19 custom unions (12%) and 143 free trade areas (88%) around the world.

Figure 1:
Regional Integration Agreement's (RIA's) registered by GATT/WTO (1948-1998)



Source: World Trade Organization –WTO-

3. Analysis of Customs Union Theory

The effects of regional integration have been studied by many economists based on the Custom Union Theory. There are two basic concepts, namely trade- creating effect and trade-diverting effect in this theory. These two concepts are used by many economists and non-economists as the general framework of introduction to the study of regional integration.

Viner (1950) argues that where the trade-creating force is predominant, at least one of the custom union members must benefit. Where two members receive net benefit together, all members in the union will benefit accordingly. However, the world outside the customs union loses in the short-run; gaining in the long run only if there is diffusion of increased prosperity in the member countries of the customs union.

Where the trade-diverting effect is predominant, at least one of the member countries is bound to be injured. However, in the short run both may be injured and will suffer a net injury together. There will be injury to the outside world at large in the long run as well. The main focus of Customs Union Theory is the markets of goods and services. A positive static method (partial equilibrium) is applied in this theory and the central objective of this theoretical approach is to improve the national income.

The Second Best Theory proposed by Lypsey and Lancaster (1997) should also be mentioned here. These two authors apply a positive dynamic method (general equilibrium) to explain the customs union effects in the world trade. The contribution of Lypsey and Lancaster in the Customs Union Theory follows the Paretian optimum which requires the simultaneous fulfillment of all the optimum conditions based on the general economic problem of maximization. A function is maximized subject to at least one constraint, which in this case is production function or utility function.

4. Trade Liberalization Analysis

We can observe the fast expansion of Preferential Trade Agreements (PTAs) that has taken place throughout the world till today. In the shape of Free Trade Area (FTA), the participant countries agree to eliminate the internal tariff barriers but set their external tariffs barriers independently. It is important to remember the Customs Union (CU) constitutes the other main shape of PTAs. CU differs from FTA essentially because its member has a common external trade policy (Breton, Scott, & Sinclair, 1997).

We consider it necessary to analyze the different evaluation methods and theories applied to the study of Free Trade Areas (FTA's) or Customs Union (CU) before addressing trade liberalization policies from two different approaches, namely multilateralism approach[1] and regionalism

[1] "Multilateralism is considered a basic principle of globalization. This principle tries to promote the free market through trade and non-trade barriers measures among nations without discrimination or some preferences under the control of the general agreement trade and tariffs (GATT). From 1947 until today, GATT is considered by many experts in the international trade field as an organization that plays the role of mediator and moderator in the international trade legal framework among all members of GATT that have trade differences. The GATT base is supported by the application of the unconditional and voluntary principles of non-discrimination and reciprocity based on the most-favored-nation (MFN) clause. The MFN complies with the modus operandi of the GATT, and it is given the basic elements to bilateralism in all GATT negotiations among its members. Usually, when we refer to

approach.[2] In this paper, the regionalism approach is adopted. Moreover, the two categories of the regionalism approach are applied. These two categories of regionalism, as suggested by Bhagwati (1999) are the old regionalism (i.e. closed regionalism) and the new regionalism (i.e. open regionalism).

The old regionalism was used in the 1950's, 1960's and 1970's. It was used constantly and in successive stages. It covered preferential trade arrangements, free trade area, customs union, common market and economic union. The old regionalism is applied in the development strategy known as Import Substitution Industrialization Strategy (ISI).[3] The new regionalism, on the other hand, was developed and promoted in the end of the 1980's and 1990's. It is based on trade liberalization or open market. It uses the export-led oriented or outward oriented model strategy. In contrast with the old regionalism, the new regionalism endeavors to eliminate all trade barriers and non-trade barriers in the same region.

In theoretical terms, free trade generally means that there are no artificial impediments (tariff) to the exchange of goods across national markets and that therefore the prices faced by domestic producer and consumers are the same as those determined by the world market (allowing for transportation and other transactions costs). These prices reflected the relative scarcity and abundance of goods around the world and constitute a relevant opportunity cost to domestic firms and households (and hence to the country as a whole) because the world market is always available for trades at those prices (Irwin, 1998).

In reality, free trade describes a policy of the nation-state toward international commerce in which trade barriers (tariff barriers, quantitative restrictions, and other import barriers) are absent, implying no restrictions on the import of goods from other countries or restraints on the export of domestic goods to other markets. These trade interventions distort the prices faced by domestic producers and consumers away from those arising in the world market.

GATT, some confusion may arise especially when the GATT focus its attention on multilateralism, and we forget that the importance of bilateralism which is a vital complementary part of multilateralism. After this clause was implemented, it gave rise to article XXIV. Article XXIV refers to regional agreements based on custom union and free trade areas." (Alan V. Deardorff y Robert M. Stern,1994).

[2] Regionalism is defined by many experts as the formation of trade blocs or regional integration agreements (RIA's) based on reduction of tariff measures (import tariff) and non-tariff measures (quotas and quality controls) among its members under the implementation of custom unions and free trade areas among a group of countries in the same geographical area.

[3] ISI is applied a higher tariffs to protect some specific areas of production based on the infant industry principle.

In the present research, it is divided in two different stages to analyzed trade liberalization from free trade perspective: first stage is the free trade analysis focus on doctrinal (reason to use free trade) point of view from Adam Smith until Keynes; second stage, free trade analysis focus on analytical (effect to use free trade) point of view from Viners' until today.

However, it is important to mention that in the initial stages of the free trade research field, it is based on doctrines focus. Since Adam Smith (1776) made his classic free trade theory in the Wealth of the Nations (Smith, 1776) based on the Laissez Fair (i.e., as little government interference with the economic system as possible. The wealth of the Nations presents that the application of free trade can generate wealth and welfare among nations. "According to Adam Smith, trade between two nations is based on absolute advantage. When one nation is more efficient than (or has an absolute advantage over) another in the production of one commodity but is less efficient than (or has an absolute disadvantage with respect to) the other nation in producing a second commodity, then both nations can gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage (Salvatore, 2001)".

Opposite to the idea of the mercantilist philosophy (the accumulation of treasure or bullion; the promotion of national wealth; the achievement of a favorable balance of trade; the protection of home industry; and the increase of state power), the mercantilist ideas were based on the infant industry argument (protectionist). Smith and classics firmly established among economic thinkers the proposition that free trade is superior to import protection in producing a greater amount of aggregate economic wealth. The wealth of the nations does not contain a single analytic idea, principle, or method that was entirely new in 1776. The contribution of Smith achieved what others before him had failed to do: present a system, coherent framework for thinking about the economics of trade policy.

Additionally, the free trade in the classical economics, these economist developed Smith's ideas in theoretical details the case of free trade through David Ricardo and his theory of comparative advantage. The comparative advantage has strong relation with opportunity cost theory (Haberler, 1952). The opportunity cost theory can be illustrated with the production possibility frontier or transformation curve. It can show alternative combinations of the two commodities that a nation can produce by fully utilizing all of its resources with the best technology available to it (Salvatore, 2001). In the analysis of the comparative advantage is used a basic mathematics and graphs to explain the relationship between two nations and goods based on the absolute advantage that each one country present. The variables use the comparative advantage is two countries and two goods, each good is used one production factor (time value) or price (monetary value), in this case labor represented by man-hour and value of one unit by price. Both cases try to measure the welfare that each nation can obtain in the trade exchange.

Both cases of regionalism revolve around static trade creation and trade diversion effects. This is partly due to the fact that many economists consider these effects to be the fundamental dimension for evaluating regional integration (Devlin and Efrench-Davis, 1998). This paper, however, is of the view that these models of analysis require considerable transformation for application in the study of trade liberalization issues. The core idea presented here is that the study of trade liberalization should encompass more than one isolated economic or political analysis revolving around one specific problem.

The customs union theory is still used today and continues to be used by many economists to consider static trade creation and trade diversion for evaluating free trade agreements. However, the static analysis used in the customs union theory posts a problem: it frequently uses a partial competitive equilibrium framework to arrive at a general conclusion about a process that is general equilibrium phenomenon. (Devlin and Ffrench-Davis, 1998)

5. CONCLUSION

The final conclusion in this paper is that different theories and theoretical focus related to Globalization, Regional Integration and Immigration only can give a superficial explanation about Globalization. The limitation of old theories can permit to visualized deep problems of developing countries and less developed countries (LDC's) in the Globalization process.

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FIGURE 1: IMMIGRATION GROWTH RATE (IGR): REGIONAL LEVEL

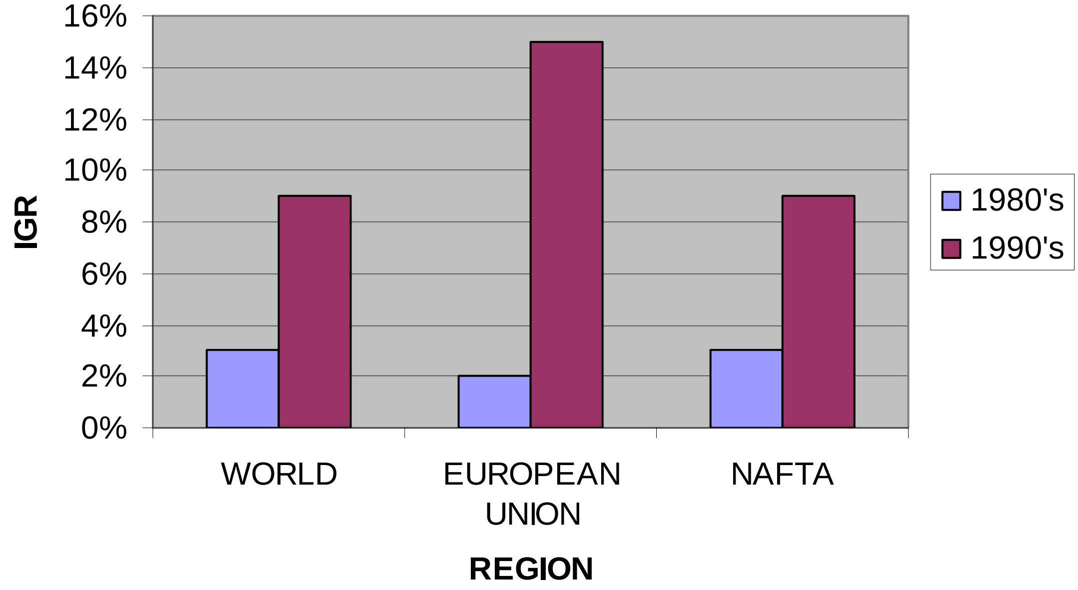

FIGURE 2: IMMIGRATION GROWTH RATE (IGR): INTRA-REGIONAL LEVEL